

# PHILIPPINES ECONOMIC WRAP-UP

JULY 01-07, 2000

## ----- Summary -----

The Philippine peso tumbled on local and regional concerns, but inflation remains largely in check. The government is making another attempt at selling its 30% stake in Philippine National Bank. A new road users tax may provide new funds for infrastructure development. The rehabilitation of failed Urban Bank is underway. Reacting to international criticism, the Philippines has instituted new rules to prevent money laundering. A large power project has run into snags, and a new law on electronic commerce heralded the creation of a new "e-procurement" firm by six Philippine conglomerates.

These weekly reviews are available on the Embassy's web site (<http://usembassy.state.gov/manila>). We provide a longer and more detailed review of the Philippine economy in our May Economic Outlook, which can also be found on our web site.

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## ----- Market and Policy Developments -----

## FOREX REPORT

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The Philippine peso continued to slide this week against the dollar. The currency was pressured by softness in regional currencies and corporate demand for dollars. Some fund traders blamed the fall on a shift to dollar-denominated securities, but President Estrada assured reporters on Thursday that there were no signs of capital flight. From its close of P43.23/US\$ on June 30, the peso sank 80 centavos to end the week at P44.03/US\$.

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Exchange Rate Tables

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Date	Weighted Average (Pesos/US\$)	Closing (Pesos/US\$)	Volume (Million US\$)
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MAY 29	42.649	42.710	163.7
30	42.829	42.750	92.4
31	42.649	42.620	146.5
JUN 01	42.633	42.580	104.5
02	42.465	42.465	113.1
JUN 05	42.421	42.320	147.7
06	42.233	42.380	199.2
07	42.417	42.360	131.3
08	42.475	42.480	101.0
09	42.521	42.465	99.7
JUN 12	Markets Closed		
13	42.400	42.425	105.0
14	42.415	42.420	116.5
15	42.465	42.535	63.5
16	42.611	42.595	102.0
JUN 19	42.649	42.655	93.5
20	42.672	42.675	142.6
21	42.693	42.830	86.0
22	42.907	42.870	128.0
23	42.879	42.845	76.0
JUN 26	42.890	42.910	73.0
27	42.963	43.020	63.0

28	43.115	43.130	97.1
29	43.154	43.170	114.6
30	43.253	43.230	108.6
JUL 03	43.436	43.530	98.1
04	43.563	43.535	89.0
05	43.646	43.690	77.5
06	43.851	43.950	123.1
07	43.981	44.030	96.4

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Source: Bankers Association of the Philippines

#### CREDIT MARKET REPORT

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On expectations that the government will have to tap domestic markets to finance a growing budget deficit, banks bid up T-bill rates at the July 3 auction. Yields on the 91-day T-bills fell 0.6 basis points to 8.890%. Yields on the 182-day T-bills rose 5.2 basis points to 9.901% and yields on the 364-day T-bills rose 11.1 basis points to 10.796%. Bids totaling P8.557 billion were received for the P4 billion worth of T-bills on offer. In an effort to keep rate hikes to a minimum, however, only P3.336 billion of bills were awarded. The July 4 auction of five-year Treasury bonds saw rates rise to 13.5% from 13.0% a month earlier. P1.91 billion worth of bids were received for the P3.0 billion of the bonds offered; only P1.23 billion was awarded.

Bangko Sentral ng Pilipinas (BSP, the central bank) Deputy Governor Amando Tetangco told reporters on Thursday that the Monetary Board (the BSP's policy-making arm) had decided to maintain overnight rates at current levels for the time being. There had been speculation that the Monetary Board might try to shore up the fast-falling Philippine peso with a rate hike, but Tetangco noted that it was difficult to justify an increase in the face of lower inflation figures (see below). The BSP has indicated it will continue to watch the moves of the Federal Reserve Board for further signals on interest rates.

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# Domestic Interest Rates (in percent)

## Treasury Bills

Auction Date	91 days	182 days	364 days
MAY 29	8.968	(no sales)	11.396
JUN 05	8.908	10.282	11.211
JUN 13	8.909	10.137	10.944
JUN 19	8.911	10.045	10.924
JUN 26	8.896	9.849	10.685
JUL 03	8.890	9.901	10.796

Source: Bureau of the Treasury

## Prime Lending Rates of 15 Expanded Commercial Banks

Date of Survey	Average	Range
JUN 01	11.1416	10.25 - 13.625
JUN 08	11.1228	10.00 - 13.625
JUN 14	11.1229	10.00 - 13.625
JUN 22	11.1379	10.00 - 13.625
JUN 28	11.1806	9.50 - 13.625
JUL 05	11.1715	9.50 - 13.500

Sources: Bangko Sentral ng Pilipinas; Press reports

## STOCK MARKET REPORT

Philippine equities markets continue to drift aimlessly this week on historically low trading volumes. Selected technology plays saw some action, as did a few speculative issues, but overall investor interest was moribund. The 33-share Philippine Stock Index rose 1.08% from its June 30 close to end the week at 1550.60.

## Philippine Stock Exchange Index (PHISIX) and Value of Shares Traded

Date	PHISIX	Value
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-----	Close	(Million pesos)
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MAY 29	1482.77	1107
30	1470.07	746
31	1478.76	623
JUN 01	1470.53	902
02	1512.75	1135
JUN 05	1552.65	1136
06	1562.38	1222
07	1522.33	796
08	1537.13	598
09	1521.93	977
JUN 12	Markets Closed	
13	1522.15	950
14	1524.21	1468
15	1565.69	1200
16	1569.95	1225
JUN 19	1560.67	1001
20	1560.40	1121
21	1555.62	816
22	1545.90	1156
23	1542.97	966
JUN 26	1532.24	628
27	1529.37	925
28	1531.01	873
29	1532.74	767
30	1533.99	938
JUL 03	1535.65	397
04	1538.88	525
05	1539.92	587
06	1542.41	687
07	1550.60	882

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Source: Philippine Stock Exchange

JUNE YEAR-ON-YEAR INFLATION AT 3.9%

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The government's National Statistics Office (NSO) reported that June 2000's consumer price index (CPI) increased by 0.7% month-on-month, from 0.4% in April. The acceleration mainly reflected seasonal increases in education-related services and products with the mid-year reopening of the school season. The NSO noted that tuition fee hikes this year were more modest than in 1999. Fuel and utility rate increases and price hikes for miscellaneous items would have pushed up June's CPI more sharply but were largely offset by lower food prices during the month. The 0.7% month-on-month overall CPI increase was somewhat slower than 1999's comparable rate (0.8%). As a result, year-on-year inflation tapered from 4.1% in May to 3.9% in June, breaking from the previous four months' accelerating trend.

Economists generally expect year-on-year inflation to inch up as the year progresses -- reflecting resurgent uncertainties over the cost-push effect of world oil prices, lingering fiscal difficulties, and recovering overall demand. Still, inflation thus far has been lower than expected. Year-on-year inflation averaged 3.5% during the first six months of the year, well within the government's 5-6% full-year target range.

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 PHILIPPINE CONSUMER PRICE INFLATION  
 (IN %)  
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	Year-on-Year	Month-on-Month
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Jan 1999	11.6	2.1
Feb	9.9	(0.1)
Mar	8.7	(0.3)
Apr	7.9	(0.1)
May	6.7	0.1
Jun	5.7	0.8
Jul	5.7	0.2
Aug	5.5	0.3
Sep	5.7	0.5
Oct	5.4	0.3
Nov	3.9	0.1
Dec	4.3	0.1
Average		

Jan-Jun 1999	8.4	
Jan-Dec 1999	6.6	
Jan 2000	2.6	0.5
Feb	3.0	0.3
Mar	3.3	0.1
April	3.7	0.2
May	4.1	0.4
Jun	3.9	0.7
Average		
Jan-Jun 2000	3.5	

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Source: National Statistics Office

#### PNB PRIVATIZATION - TAKE TWO

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According to latest pronouncements, the government has set the sale of its 30% stake in Philippine National Bank (PNB) for July 19. This represents the second attempt to unload the government's shares in the bank since the failed June 9 joint bidding with Lucio Tan's 46% block. Finance Secretary Jose Pardo said in press interviews that prospective buyers will have the option to buy the shares on installment (P100/share over 1-1/2 years at a total cost of P6.2 billion); or in cash (P85/share at a total cost of P5.3 billion). The proceeds from the sale of PNB is part of the government's P22 billion privatization target for the year.

Most analysts say the government is grasping at straws. The PNB board recently approved a reduction in PNB's par value from P100/share to P60/share in preparation for a planned stock rights offering within this quarter. (N.B. PNB stock closed at P56.50/share on July 7.) Stockholders are expected to approve the board decision in a special stockholders meeting on July 21. Prospective buyers of the government shares therefore also face a subsequent dilution, unless they are prepared to subscribe to the planned stock rights offering. As the week drew to a close, Secretary Pardo said that U.S. firm TLC Beatrice (which failed to meet the conditions of the June 9 bidding) remained interested in acquiring the government's shares in PNB and was exploring a tie-up up

with JP Morgan. Secretary Pardo also indicated that the government would pose no objections to Lucio Tan's acquiring the shares, if his group was interested.

#### ROAD USERS TAX SIGNED INTO LAW

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On June 27, 2000, President Estrada signed into law Republic Act (RA) No. 8794, imposing a "motor vehicle users' charge" (MVUC). The act goes into effect fifteen days after publication in at least two newspapers of general circulation. The MVUC replaces registration fees and other motor vehicle charges previously contained under separate laws. In the wake of strong protest by the transport sector, R.A. No. 8794 limits the increase to a doubling of current rates, staggered over a four-year period. Unadjusted since the early 1980's, the government had pushed for the immediate implementation of more significant hikes in total motor vehicle fees under earlier versions of proposed MVUC legislation.

The government expects to collect less than P500 million in incremental revenues from R.A. No. 8794 during the second half of 2000. From about P1.5 billion in 2001, the government estimates incremental revenues to rise to about P4.5 billion once the full rates take effect in 2004. The law earmarks MVUC collections for specific special purpose funds -- road maintenance, vehicle pollution control, drainage improvement, traffic management, and the installation of road safety devices.

#### URBAN BANK UPDATE

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In a July 6 meeting, the Monetary Board (the Bangko Sentral's highest policymaking body) approved in principle Bank of Commerce's bid to purchase and rehabilitate closed Urban Bank. Bank of Commerce edged out another interested party because it offered a shorter deposit payout period (three versus seven years); was willing to acquire Urban bank as well as its subsidiaries (including controversial investment house Urbancorp); and had persuaded major depositors to convert their exposures into equity. The rehabilitation plan will be presented to Urban Bank's creditors and depositors for approval about mid-July. If things go well, bank regulators



expect the bank to reopen under Bank of Commerce management on or before the first week of September. Bank of Commerce officials estimated that it would take about six months to fully integrate the two banks' operations.

Bank of Commerce has also been working over the past year to complete a merger deal with Traders Royal Bank. It is also in acquisition/merger talks with Tan Yu's Pan Asia Bank. Bank of Commerce officials estimate the successful acquisition of the three banks to push up Bank of Commerce to the fifteenth or so ranking (by assets) among the commercial banks in the country (from about twenty-seventh place currently).

#### NEW ANTI-MONEY LAUNDERING RULES

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On July 6, the Monetary Board of the Bangko Sentral ng Pilipinas approved a new bank circular issuing new rules and regulations to combat money laundering. The new rules were issued as a direct response to the Philippines' inclusion on a list of "non-cooperative countries and territories" issued by the Financial Action Task Force in Paris on June 22, 2000. The new rules strengthen and expand existing requirements for banks to verify and maintain records of the identities of their customers. The regulations also require banks to maintain records of transactions for a minimum of five years; to report large, complex and unusual transactions, and to develop internal programs to combat money laundering. Further steps requiring legislation (including the relaxation of bank secrecy laws) are currently being considered by the Philippine Congress.

#### CBK CONTRACT IN DOUBT

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A Build-Rehabilitate-Operate-Transfer contract for the Caliraya-Botocan-Kalaayan hydroelectric complex is in doubt after a key June 30 deadline was missed. Argentina's Industrias Metalurgicas Pescarmona, SA (IMPISA) has teamed up with the U.S. firm Edison Mission Energy to undertake the \$450 million project to rehabilitate and build new generating capacity for a 750MW complex. The June 30 deadline applied to both

sides. The Philippine government was required to supply a Department of Justice opinion as to the validity of the contracts and confirmation of land rights and site access. The government met its deadline by submitting the required documents at 11:00pm on June 30. However, the IMPSA team needed the documents to meet its condition of financial closure. As the documents were not provided until, literally, the 11th hour, IMPSA and Edison Mission were unable to reach financial closure by the deadline. The IMPSA team has asked for an extension, but the government has suggested the extension may not be granted, given that 4 previous extensions of 3 months each had been granted earlier. Under the terms of the contract, however, talks are ongoing to resolve the dispute. If these are unsuccessful, the IMPSA team could initiate dispute arbitration proceedings.

#### SIX CONGLOMERATES FORM ONLINE PURCHASING FIRM

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Six of the Philippines' top business groups have banded together to set up the first 24-hour Internet marketplace in the country. On June 19, the same day the E-Commerce Law took effect, the CEOs of Ayala Group; JG Summit Holdings Inc.; Benpres Holdings Inc.; Aboitiz Equity Ventures; Philippine Long Distance Telephone Company (PLDT); and United Laboratories, signed a memorandum of understanding (MOU) for the formation of an electronic procurement company. The still unnamed electronic-procurement company, whose ownership will be divided equally among six founders, will be run by an independent management team. The founders target startup operations sometime in November this year. At least two big companies, San Miguel Corporation and Shoemart Group of companies, were noticeably excluded from this landmark venture. A member of the consortium has remarked that the group has been kept small and tight initially as it focused on quickly setting up and executing the business plan.

The six founding firms have agreed to initially capitalize at PhP1 billion (about \$25 million), and use the facility for a significant portion of their purchases from office supplies to heavy equipment. The firm will have online bidding and catalogues covering a wide variety of goods. Its services will ultimately be open

to all big and small buyers. The new business-to-business Internet service is expected to benefit suppliers by cutting down costs of receiving, validating and filling orders as well as inventory costs because of quicker turnover. Trade Secretary Manuel A. Roxas II has remarked he expects small and medium enterprises to benefit as well from a wider base of suppliers and more accessible and more transparent bidding process under the new "e-procurement" facility.